

Business Decision for Iowans— ICN Leased Connections

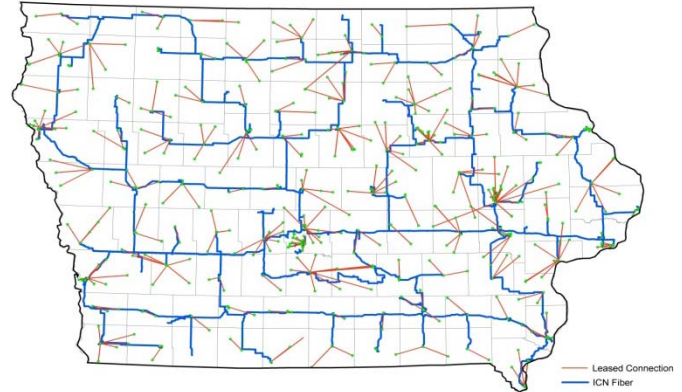
HSB 13 and SSB 1048

Frequently Asked Questions

Background: By statute, the Iowa Telecommunications and Technology Commission (ITTC) is required to lease connections to schools, libraries, AEA's, judicial, correctional services connections, and connections to state agencies that are paid with state funding. A connection is the physical connection from the network to the customer location. The state funded \$35.5 million in installation costs for the connections to school, library, and AEA (Part III) sites as well as paying a monthly lease cost. The original structure has limited the competitive environment for providing these services to vendors who were paid for the initial installation. The ITTC is requesting authorization to evaluate and deploy alternative connection options when it is the most cost-effective business decision for the state.

Q. What changes do HSB 13 and SSB 1048 make to Code of Iowa, Chapter 8D?

- A. The language in these bills provides a mechanism for the ITTC to pursue alternative ways to provide connections for Part III and the other leased connections when no bids or bids exceeding the market rates are received in response to an Invitation to Bid (ITB). It would also allow the ITTC to seek other alternatives for connections if vendors are not willing to meet the maintenance standards required by customers or other business factors which may need to be considered.



Q. How would an effective business decision be defined?

- A. The ITTC would have the authority to seek alternatives to the current lease arrangement when any of the following occur:
1. An incumbent provider no longer owns the connection.
 2. An incumbent provider ceases to provide adequate maintenance services for the connection.
 3. The ITTC determines that it is in the long-term best interest of the state to otherwise provide an existing or otherwise authorized network connection.

Q. What is meant by “long-term best interest of the state?”

- A. In determining the long-term best interest of the state, the ITTC will consider the cost to taxpayers and the ability of the Network to provide a level of service necessary to meet the demands of network users.

Q. How would the ITTC “otherwise provide” connections to users currently receiving services via a leased connection?

- A. “Otherwise provide” means by any appropriate manner as determined by the ITTC and could include state ownership; state ownership of the circuit within some type of public-private partnership; or the incumbent provider transferring the connection to another provider by sale or hybrid lease-ownership agreement. This process will ensure the State is not limited from using connection alternatives that could be available in the future.

Q. What is the reason for a leasing requirement?

- A. When the construction plans were first implemented to connect K-12 schools, libraries, AEAs and state agencies, the legislature wanted to make sure that private telecommunications providers would have an opportunity to serve their local areas. Companies winning the leasing bids for schools, libraries and AEAs were also provided with funds to construct the required infrastructure. The total annual leasing cost to date is \$18.5 million for all leased connections with maintenance costs of \$10.5 million for the Part III leased connections.

Q. How does the ICN's “Invitation to Bid” work?

- A. Providing cost-effective advanced telecommunications to the authorized user base in order for them to serve their constituents is the reason the ICN exists. Currently, the ITTC annually



releases an “Invitation to Bid” (ITB) for expiring last-mile leasing arrangements to schools, libraries, AEAs, state agencies, correctional service connections and judicial connections. Rarely does the ITTC receive more than one bid for each connection and often there are no bids for some sites. In these cases, extensions or non-competitive sole source contracts are let to the incumbent. Since the ITTC must lease these connections, the Commission cannot explore potentially lower cost options and as a result, may not be charged a fair rate for these connections.

There have been times when the leasing agreements offered do not provide the level of maintenance that was included in the ITB and that is not adequate to provide our users the quality of service they require.

Legislative expectations are for the ICN to have a breakeven budget and not receive appropriations to fund network operations which requires the ability to make decisions based on best business practices.

Before seeking alternatives, the ITTC will determine when an alternative service would not be available from a qualified provider within the private sector and that the utilization of a competitive bidding process would not be effective nor be in the best interest of the State.

ITB Release Year	Number of Sites	No Bids Received	Renewed Existing Agreement*	Sole Source Agreement with Incumbent	Comments
2002	48	3	3		48 sites were bid. Received no compliant bids for 3 sites. Renewed existing agreements.*
2003	111	15	98		
2004	100		94		11 vendors did not bid. ITB was reissued. Received no bids for 8 sites.
2005	51	36	24	8	
2006	102		6	12	Vendors providing the service did not bid. Only bid received was over 284% per circuit higher than current vendor.
2007	99	39	3	35	
2008	54	11		11	Received no bids for 11 sites. Only 3 vendors responded to ITB. Mediacom bid was not close to being comparable.

The table indicates the ICN’s ITB experiences for the past 7 years.

*Most accepted renewals are at an increased rate.

Q. Who provides the Part III leased connections?

- A. McLeod—228 connections
- B. Adesta—67 connections
- C. Cable Companies—15 connections
- D. Regulated Companies—12 connections
- E. Independent Telecommunications Companies—44 connections
- F. Municipal Utilities—10 connections

Attached is a table that includes the amount paid to each Part III vendor for leases and construction costs.

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Part III Lease and Construction Costs by

	Installation Cost by Vendor	Total Lease Costs by Vendor	Total Cost by Vendor	Vendor Type	# of sites	Cost/Month	Average Cost/Site/ Month	Est. Circuit Miles
Adesta LLC	\$ 7,487,909	\$ 34,859,285	\$ 42,347,194	Fiber Co	67	\$ 21,425.74	\$ 319.79	921.31
Alpine	\$ 5,005	\$ 555,565	\$ 560,570	Ind Tel	2	\$ 3,657.78	\$ 1,828.89	37.83
Butler Bremmer Telephone	\$ 4,840	\$ 156,714	\$ 161,554	Ind Tel	1	\$ 800.00	\$ 800.00	11.28
Cable One	\$ 712,264	\$ 422,712	\$ 1,134,976	Cable Co	5	\$ 9,270.00	\$ 1,854.00	23.11
Cascade Telephone	\$ -	\$ 465,124	\$ 465,124	Ind Tel	1	\$ 1,000.00	\$ 1,000.00	16.83
Cedar Falls Utilities	\$ -	\$ 138,772	\$ 138,772	Utility	2	\$ 1,012.00	\$ 506.00	14.34
Central Scott Telephone Company	\$ -	\$ 2,671	\$ 2,671	Ind Tel	1	\$ 50.00	\$ 50.00	2.69
Citizens Mutual Telephone Company	\$ 4,840	\$ 197,811	\$ 202,651	Ind Tel	0	\$ -		15.98
City of Dubuque	\$ -	\$ 28,360	\$ 28,360	MUNI	2	\$ -	\$ -	3.67
Clear Lake Telephone Company	\$ -	\$ 240,440	\$ 240,440	Ind Tel	3	\$ 1,534.25	\$ 511.42	54.86
Cooperative Telephone of Victor	\$ 9,600	\$ 155,200	\$ 164,800	Ind Tel	1	\$ 1,000.00	\$ 1,000.00	52.96
Dunkerton Coop	\$ 32,000	\$ 127,200	\$ 159,200	Ind Tel	1	\$ 800.00	\$ 800.00	23.14
East Buchanan Telephone Coop	\$ 4,840	\$ 196,504	\$ 201,344	Ind Tel	1	\$ 1,276.00	\$ 1,276.00	10.3
F & B Telephone Company	\$ -	\$ 349,702	\$ 349,702	Ind Tel	1	\$ 2,084.00	\$ 2,084.00	32.99
Farmer's Mutual - Shellsburg	\$ 13,910	\$ 386,528	\$ 400,438	Ind Tel	2	\$ 2,634.00	\$ 1,317.00	49.66
Farmer's Mutual Cooperative Telephone Company	\$ -	\$ 177,408	\$ 177,408	Ind Tel	1	\$ 1,152.00	\$ 1,152.00	24.93
Farmer's Mutual Coop. Telephone Co. - Moulton	\$ 4,840	\$ 168,314	\$ 173,154	Ind Tel	1	\$ 955.00	\$ 955.00	17.74
Farmer's Mutual Telephone Company - Jesup	\$ 32,000	\$ 113,750	\$ 145,750	Ind Tel	1	\$ 525.00	\$ 525.00	12.03
Frontier Communications of Iowa	\$ 500	\$ 314,032	\$ 314,532	Ind Tel	1	\$ 2,066.00	\$ 2,066.00	46.67
Grand River Mutual Telephone Co. Princeton	\$ 14,520	\$ 559,301	\$ 573,821	Ind Tel	3	\$ 3,672.00	\$ 1,224.00	67.85
Griswold Cooperative Telephone Company	\$ -	\$ 197,500	\$ 197,500	Ind Tel	1	\$ 1,250.00	\$ 1,250.00	20.79
Harlan Municipal Utilities	\$ 1	\$ 129	\$ 130	MUNI	1	\$ 1.00	\$ 1.00	1.02
Hubbard Cooperative Telephone Company	\$ 4,840	\$ 244,500	\$ 249,340	Ind Tel	1	\$ 1,500.00	\$ 1,500.00	18.53
Jefferson Telephone	\$ 5,803	\$ 191,118	\$ 196,921	Ind Tel	1	\$ 1,067.00	\$ 1,067.00	9.91
LaPorte City Telephone	\$ 111,552	\$ 346,241	\$ 457,793	Ind Tel	2	\$ 2,160.30	\$ 1,080.15	41.7
Lehigh Valley Cooperative Telephone Association	\$ 4,840	\$ 147,246	\$ 152,086	Ind Tel	1	\$ 1,067.00	\$ 1,067.00	14.26
Marne & Elk Horn Telephone Company	\$ -	\$ 249,639	\$ 249,639	Ind Tel	1	\$ 1,376.00	\$ 1,376.00	18.77
McLeodUSA	\$ 26,603,353	\$ 3,928,164	\$ 30,531,517	CLEC	228	\$ 59,738.60	\$ 262.01	3186.37
Mediacom	\$ -	\$ 654,714	\$ 654,714	Cable Co	6	\$ 4,332.00	\$ 722.00	58.66
Mediacom - Dubuque	\$ -	\$ 191,890	\$ 191,890	Cable Co	4	\$ -	\$ -	7.11
Montezuma Mutual Telephone Company	\$ 32,500	\$ 242,870	\$ 275,370	Ind Tel	1	\$ 1,490.00	\$ 1,490.00	21.46
Muscatine Power & Water	\$ 20,217	\$ 47,441	\$ 67,658	Utility	1	\$ 450.00	\$ 450.00	3.28
Mutual Telephone - Sioux Center	\$ 19,360	\$ 424,378	\$ 443,738	Ind Tel	3	\$ 2,158.00	\$ 719.33	23.43
Olin Telephone Company	\$ -	\$ 298,780	\$ 298,780	Ind Tel	1	\$ 1,200.00	\$ 1,200.00	16.36
Omnitel Communications, Nora Springs	\$ 195,834	\$ 317,561	\$ 513,395	Ind Tel	2	\$ 1,700.00	\$ 850.00	31.28
Panora Coop Telephone	\$ -	\$ 112,325	\$ 112,325	Ind Tel	1	\$ 600.00	\$ 600.00	7.5
Qwest	\$ -	\$ 3,396,522	\$ 3,396,522	LEC	10	\$ 23,698.70	\$ 2,369.87	138.02
Qwest & Heartland Telco	\$ -	\$ 452,950	\$ 452,950	LEC + Ind	1	\$ 3,851.95	\$ 3,851.95	43.61
Schaller Telephone	\$ 4,840	\$ 205,868	\$ 210,708	Ind Tel	1	\$ 1,528.00	\$ 1,528.00	10.87
South Slope Cooperative Telephone Company	\$ 4,840	\$ 218,834	\$ 223,674	Ind Tel	1	\$ 1,421.00	\$ 1,421.00	35.16
Spencer Municipal Utilities	\$ -	\$ 252	\$ 252	MUNI	2	\$ 1.00	\$ 0.50	2.69
Waverly Municipal Utilities	\$ -	\$ 27,396	\$ 27,396	MUNI	1	\$ 296.00	\$ 296.00	0.38
Webster Calhoun Cooperative Telephone Association	\$ 9,680	\$ 302,412	\$ 312,092	Ind Tel	2	\$ 2,341.00	\$ 1,170.50	54.52
Webster City Municipal Utilities	\$ 1	\$ 64,242	\$ 64,243	MUNI	1	\$ 338.83	\$ 338.83	0.61
Winnebago Cooperative Telephone Company	\$ 130,691	\$ 580,706	\$ 711,397	Ind Tel	4	\$ 4,147.00	\$ 1,036.75	55.04
Vendor	\$ 35,475,420	\$ 52,459,070	\$ 87,934,489					